

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1903 - SB 2670

February 26, 2018

SUMMARY OF BILL: Modifies apportionment rates from the Municipal Street Aid Fund (MSAF), establishing that 5 percent of such funds shall be distributed equally to each municipality and 95 percent of such funds shall be distributed to municipalities based in proportion to population.

Reduces the rate of apportionments to the General Fund from state sales and use tax revenue collections, from 29.0141 percent to 28.4499 percent.

Increases the rate of apportionments to municipalities from state sales and use tax revenue, from 4.6030 percent to 5.1672 percent.

Increases the rate of apportionment to Gatlinburg and Pigeon Forge from state sales and use tax revenue, from 4.6030 percent to 5.1672 percent.

Increases the rate of apportionment to river resort districts, from state sales and use tax revenue, from 4.6030 percent to 5.1672 percent.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue - \$41,415,000

Increase Local Revenue - \$41,415,000

Other Fiscal Impact – Modifying the apportionment rates from the Municipal Street Aid Fund will impact the amount of such funds any specific municipality will receive. However, the total amount of funding from the Fund received by all municipalities will not be impacted.

Assumptions:

- An effective date of July 1, 2018.
- Currently, 100 percent funds in the MSAF are apportioned to municipalities based in proportion as the population of each municipality bears to the aggregate population of all municipalities according to the 1950 federal census or any subsequent federal census.
- This legislation establishes that 5 percent will be shared equally amongst all municipalities and the remaining 95 percent will be allocated to municipalities based on

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population. This will result in a shift of MSAF funds from municipalities with larger populations to those with smaller populations.

- This legislation will result in a decrease in state sales and use tax funds currently allocated to the General Fund and an equal increase in funds apportioned to local government.
- According to the Department of Revenue (DOR), the amount of state sales and use tax collections subject to the local apportionment provisions was \$6,587,623,371 in FY16-17.
- Assuming a growth rate of 3.92 percent in FY17-18 and 3.45 percent in FY18-19, the total amount of state sales and use tax collections subject to the local apportionment provisions is estimated to be \$7,082,040,315 in FY18-19 ($\$6,587,623,371 \times 1.0392 \times 1.0345$). This number is assumed to remain constant into perpetuity under current law.
- Currently, municipalities receive 4.603 percent of such state sales and use tax collections. Gatlinburg and Pigeon Forge as well as river resort districts receive an additional appropriation on top of that.
- The proposed legislation will increase the percentage of state sales and use tax allocated to municipalities, from 4.603 percent to 5.1672 percent.
- The recurring decrease in state revenue to the General Fund, and an equivalent recurring increase in local revenue, is estimated to be \$39,956,871 [$(\$7,082,040,315 \times 0.051672) - (\$7,082,040,315 \times 0.04603)$].
- In addition, Gatlinburg's and Pigeon Forge's allocations will increase by an additional \$998,840 each year (\$339,663 Gatlinburg; \$659,177 Pigeon Forge), and river resort districts will realize an additional recurring increase in revenue of \$459,258.
- A total recurring decrease in state revenue to the General Fund of \$41,414,969 ($\$39,956,871 + \$998,840 + \$459,258$).
- A total recurring increase in local revenue of \$41,414,969.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

/jdb